

Reserves policy, procedure and guidelines

Introduction

The purpose of this policy is to outline Council's commitment to the creation and maintenance of financial reserves to record future commitments for specific purpose expenditures. The policy will provide a rationale for the purpose of financial reserves and detail how the reserves funds are increased and decreased.

Scope

This policy excludes the Asset Revaluation reserve that arises under the Australian Accounting Standards, as it relates to change in the asset values rather than the collection of funds.

Principles

Financial Reserves are amounts of money set aside for specific purposes to be incurred in later years. In general, these funds do not have bank accounts of their own but are a theoretical split up of the cash surplus that Council has on-hand.

Council has two types of reserves – Statutory and Discretionary Reserves.

Statutory Reserves

These reserves are established to record revenues received from developers which are specifically applied to capital projects in later years. Typical type of statutory reserves includes, public open space, car parking, native vegetation, subdivision road work and community infrastructure

The use of funds from Statutory Reserves is governed by legislation (or other legal requirements) and records Council's future expenditure commitments. These are separately accounted for to ensure sound financial management of future operations.

Where statutory funds are collected to fund future infrastructure, there are legal requirements that govern how the funds must be spent. This may include expending the funds in accordance with the terms and conditions of the funding, or on projects in the vicinity of the developments that the funds were collected in respect of.

Creation of Statutory Reserves

Statutory reserves are a legislative requirement and will be created when the relevant legislation comes into effect. The use of these reserves will be identified and approved by Council through the annual budget process.

Typical sources of inflows:

Solely comprised of contributions from developers.

Criteria to enable outflows:

Use of funds can only be in line with the funding agreement and approved by Council in two manners:

- As part of the budget process; or
- By Council Resolution outside of the budget process.

Discretionary reserves

Discretionary Reserves are funds held by Council and segregated from general revenues, based on Council directions, to finance future expenditures or to provide for a specific project so as to ensure funds are available as required. Discretionary Reserves may be varied from time to time where expenditure commitments may be created and retired. These reserves are not subject to legal requirements governing the use of the funds. The reserves are established for a specific internal purpose and if the purpose does not eventuate or Council changes its priorities, the funding can be diverted to other purposes through a Council resolution.

Creation of Discretionary Reserves

As a general rule, income and expenditure should be budgeted in the financial year in which it occurs and should not be “set aside” in reserves for future use. However, Council does in some instances create financial reserves where:

- Large expenditure needs to be funded over a period of time,
- Funds are collected specifically for funding of a particular capital works program, or
- Setting aside funds to repay loans

Council approval is required for the creation of new discretionary financial reserves.

If a new reserve is required, a report must be prepared and submitted to Council for approval. The report will include details of:

- Why the financial reserve is required (including any legislative requirements),
- Where the funds to be transferred to the reserve will come from,

- What the funds will be expended on,
- When the funds will be spent,
- The length of time the reserve will be required,
- The dollar value of expected Reserve balance and transfer in/to the Reserve,
- The manner in which the reserve will be closed.

Transfer of funds in/out of Discretionary Reserves

Transfer of funds are restricted by the internal purpose of the reserve. All transfers to and from the reserve account must be authorised by Council in the following manner:

- Identified when the reserve is established,
- Identified in the budgeting process as funds committed to be transferred to the reserve account,
- Identified in the budgeting process as expenditure to be appropriately expended from the reserve account,
- By Council resolution after the end of financial year results are completed and excess funds are identified.

Compliance

Reserve Funds must be drawn down to fund expenditure that is consistent with the purpose of the reserve as noted in this Policy and meets the criteria to enable transferring funds from each applicable reserve. For each existing or future reserves, they must be cash-backed.

Reserve accounts will be closed at the end of their useful life by Council resolution or in the manner that was set out when the reserve was established.

Reporting on Financial Reserves

Council is required under the Local Government Act 2020 and financial reporting standards to disclose all reserves set aside for specific purposes in its annual financial statements. In addition to this, details on reserves are to be reported:

- In a detailed statement as part of the Annual Financial Statements and Annual Report, and
- In a detailed statement of movement and balances as part of the monthly financial reports.

Related Documents

Local Government Act 2020
Subdivision Act Section 18

Definitions

Reserves: Are funds that have been set aside from operating and capital incomes for future funding of projects. From an accounting perspective the value of these funds is recorded in equity balance sheet ledger accounts.

Discretionary Reserves: are financial reserves established by Council to fund works over a period of time, there are no legislative or legal requirements governing the use of these funds.

Statutory Reserves: are financial reserves where the usage of the funds is governed by Legislation or other legal requirements, e.g., public open space contributions.

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